

**Analyst: Kelvin Li**

## **Main Board Listing – Research**

旭光資源有限公司

**Lumena Resources Corp. [Stock Code: 00067]**

**Joint Global Coordinators and** : Credit Suisse BOCI Macquarie  
**Joint Bookrunners**  
**Joint Sponsors** : Credit Suisse Somerley  
**Joint Lead Managers** : Credit Suisse BOCI Macquarie BoCom International  
**Sector** : Materials  
**Business** : Mining, processing and manufacturing of natural thenardite (sodium sulphate) products

<b>Total share offer:</b> <i>577,200,000</i> shares <i>(Comprising 404,000,000 new shares and 173,200,000 sale shares)</i> <i>(30.0% of the enlarged share capital)</i> <b>Public Offer:</b> 57,720,000 shares (10%) <b>Placing:</b> 519,480,000 shares (90%) <b>Greenshoe:</b> 86,580,000 shares	<b><u>Business of Lumena</u></b> Lumena is mainly engaged in the mining, processing and manufacturing of natural thenardite products. Thenardite (anhydrous Na <sub>2</sub> SO <sub>4</sub> ) is an important raw material used in the manufacture of chemical and light industrial products. As of the end of 2008, the Group was the world's second largest thenardite producer in terms of production capacity.  The Group's products can be categorized into powder thenardite, specialty thenardite and medical thenardite. Powder and specialty thenardite are primarily used as inert fillers in powder detergents and as processing aids in the textile and glass industries, while medical thenardite is used as a mild laxative and an anti-inflammatory agent in Chinese and western medicines.  Lumena now operates two captive underground glauberite (Na <sub>2</sub> SO <sub>4</sub> ·CaSO <sub>4</sub> ) mines located in the Dahongshan Mining Area and the Guangji Mining Area in Sichuan province. Production facilities in the Muma Mining Area are under construction and expected to commence operation by the end of 2009.
<b>Price:</b> HK\$1.72 – HK\$2.56 per share <b>Market Cap:</b> HK\$3.31 billion – HK\$4.93 billion <b>Pro forma fully diluted FY09 P/E:</b> 5.8x – 8.6x <b>Adjusted NTA per share:</b> HK\$0.49 – HK\$0.66 <b>Staffing:</b> 1,802 (as of 29 <sup>th</sup> May 2009)	
<b>HK Public Offer period:</b> 4 <sup>th</sup> June 2009 – 9 <sup>th</sup> June 2009 noon <b>Receiving bank:</b> Bank of China (HK) <b>Share registrar:</b> Computershare Hong Kong Investor Services Limited <b>Listing date:</b> 16 <sup>th</sup> June 2009	

### **Shareholders after Listing** (Assuming the over-allotment option is not exercised)

Mr Suolang Duoqi, founder and chairman of Lumena	43.1%
Moonchu – a tax-exempt charity established in Hong Kong	13.8%
Warrant Holders and Financial Investors*	5.2%
Mr Wang Chun Lin, a non-executive director, and his spouse Ms Chan Hiu Lai, Caroline	3.8%
Mr Zhang Songyi, a non-executive director, and his spouse Ms Mui Bing How	2.8%
OSSF Capital, a company incorporated in Malaysia	1.3%
Public shareholders	30.0%
	<b>100.0%</b>

Remark: (\*) Warrant Holders refer to Credit Suisse, Singapore Branch and Credit Suisse International, while Financial Investors refer to Tudor Global Emerging Markets Credit Portfolio L.P., Tudor BVI Global Portfolio L.P. CVI GVF (Lux) Master SARL, Deutsche Bank AG, GLG Market Neutral Fund, Citigroup Financial Products Inc., and Myo Capital Master Fund Limited.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$701.2 million (based on an offer price of HK\$2.14, assuming the over-allotment option is not exercised)

	HK\$ million
For the partial repayment of the Group's offshore bank loan owed to the Facility Lenders (Credit Suisse, Singapore Branch and Credit Suisse International) under the Facility Arrangements (pursuant to the facility agreement dated Jun 23, 2007 relating to a US\$100 million term loan).	455.8
For the construction of mining and production facilities in the Muma Mining Area.	94.7
For the acquisition of additional mining rights.	94.7
For working capital.	56.0

**Financial Highlights**

	Year ended 31 <sup>st</sup> Dec		
	2006	2007	2008
	RMB '000	RMB '000	RMB '000
Revenue	204,755	371,530	1,140,354
Gross profit	92,325	220,235	796,560
Operating profit	57,949	149,424	712,383
<b>Profit/ (Loss) attributable to shareholders</b>	<b>44,029</b>	<b>78,950</b>	<b>429,739</b>
Gross profit margin	45.1%	59.3%	69.9%
Operating profit margin	28.3%	40.2%	62.5%
Net profit margin	21.5%	21.2%	37.7%
	<b>31/12/2006</b>	<b>31/12/2007</b>	<b>31/12/2008</b>
Net debt to Equity	85.54%	190.25%	86.81%

**Strengths/Opportunities**

- ✓ Lumena is the second largest thenardite producer in the world (after another PRC-based producer Nafine Group (南風化工)) in terms of production capacity by the end of 2008. Cost efficiency from economies of scale and better pricing power from its leading market position in the Mainland should help it compete with smaller rivals.
- ✓ The Group has completed the construction of production facilities in the Guangji Mining Area in Q4 2008, which helped lift its production capacity to 1.6 million tonnes per annum (tpa) from 0.6 million tpa. Meanwhile, the Muma Mining Area is expected to commence commercial operation of its 0.2 million tpa medical thenardite production facility by the end of 2009 and 1.0 million tpa powder and specialty thenardite production facility by Q3 2010, which would not only lift the Group's total production capacity to 2.8 million tpa from 1.6 million tpa but also help boost its output volume of high-end thenardite products (special and medical) and so enhance the overall profit margin. However, ones should note that the remaining mine life (14 years) of the newly developed Muma Mining Area is the shortest among the Group's three mining areas (Dahongshan: 32 yrs & Guangji: 21 yrs).

**Weaknesses/Threats**

- × Selling prices of the Group's products had been stable over the last couple of years. Nonetheless, due to a sharp slowdown in global economy since Q4 2008, demand from those manufacturer customers may weaken and lead to pressure on thenardite prices and so the Group's profit margin.
- × Lumena is a highly geared company, as it relied on borrowings to fund its expansion in the Guangji and the Muma Mining Areas. The Group plans to use a lion share of proceeds raised from the IPO to cut down its debt and so lower the overall gearing ratio.
- × Thenardite is the Group's only product. Any development of substitute for thenardite in the future may lead to a sharp fall in demand and give a hard hit to the Group's operation.

**Recommendation:                      Neutral**



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